

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Bad Axe	County Huron
Fiscal Year End 6/30/2007	Opinion Date 10/25/2007	Date Audit Report Submitted to State 11/9/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

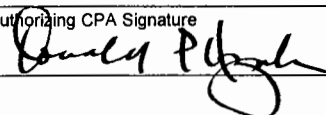
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☒ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit Report	
Certified Public Accountant (Firm Name) Hyzer, Hill, Kuzak & Co. P.C.		Telephone Number 989-269-9541	
Street Address 1242 Sand Beach Road		City Bad Axe	State MI
		Zip 48413	
Authorizing CPA Signature 		Printed Name Donald P. Kuzak,	
		License Number 1101007059	

City of Bad Axe, Michigan

**Financial Report and Single Audit Report
for the Fiscal Year ended
June 30, 2007**

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Bruce Hill

Donald Kuzak

Michael Doerr

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Bad Axe, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bad Axe, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bad Axe, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bad Axe, Michigan as of June 30, 2007 and the respective changes in the financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2007, on our consideration of the City of Bad Axe, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis, retirement system schedule of funding progress and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bad Axe, Michigan's basic financial statements. The accompanying other supplementary information as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Bad Axe, Michigan. The other supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hyzer, Hill, Kuzel & Co P.C.

October 25, 2007

As management of the City of Bad Axe, Michigan, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$10,010,636 (*net assets*). Of this amount, \$4,535,819 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors
- The government's total net assets increased by \$877,685.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,848,530. Over seventy percent of this total amount, or \$1,301,609 is *available for spending* at the government's discretion (*unrestricted fund balance*).
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$1,218,074 or seventy-two percent of total general fund expenditures.
- The City's total debt increased by \$5,340,953 during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction and overview to the City's basic financial statements.

The City's basic financial statements are made up of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities). The governmental activities of the City include general government (including administration), public safety, public works, economic development and recreation and culture operations.

The government-wide financial statements can be found on pages 10 - 12 of this report.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare this information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Street, Brick Street Assessment Funds, each of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 13 - 18 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sanitary sewer and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for motor pool operations. Because this service predominately benefits governmental rather than business type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the sewer and water operations, both of which are considered to be a major funds of the City. The equipment pool internal service fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 19 - 22 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The only fund is the Tax Account. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 - 44 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and the budgetary information for the three major governmental funds. This required supplemental information can be found on pages 45 - 49 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining, individual fund statements and schedules can be found on pages 50 - 59 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$10,010,636 at the close of the fiscal year.

A significant portion of the City's net assets (47% or \$4,745,152) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Of the remaining balance of net assets, approximately (7% or \$729,665) are restricted resources that are subject to external restrictions on how they may be used. The remaining *unrestricted net assets* (46% or \$4,535,819) may be used to meet the government's ongoing obligations to citizens and creditors. The table below shows the City's net assets as of June 30, 2007 and 2006.

City's Net Assets

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 2,881,883	\$ 2,470,669	\$ 3,231,895	\$ 2,095,113	\$ 6,113,778	\$ 4,565,782
Capital assets	3,365,746	3,573,198	9,709,856	4,452,828	13,075,602	8,026,026
Total assets	6,247,629	6,043,867	12,941,751	6,547,941	19,189,380	12,591,808
Long-term liabilities outstanding	830,447	937,754	6,958,634	1,786,173	7,789,081	2,723,927
Other liabilities	293,952	363,093	1,095,711	371,837	1,389,663	734,930
Total liabilities	1,124,399	1,300,847	8,054,345	2,158,010	9,178,744	3,458,857
Net assets:						
Invested in capital assets, net of related debt	2,525,238	2,587,138	2,219,914	2,449,391	4,745,152	5,036,529
Restricted	729,665	588,443	-	-	729,665	588,443
Unrestricted	1,868,327	1,567,439	2,667,492	1,940,540	4,535,819	3,507,979
Total net assets	\$ 5,123,230	\$ 4,743,020	\$ 4,887,406	\$ 4,389,931	\$ 10,010,636	\$ 9,132,951

Governmental activity current assets increased due to surpluses in the General Fund and Drain Funds. Current assets, capital assets, and long-term liabilities of the business type activities increased due to the City's wastewater treatment plant construction.

The City's net assets increased by \$877,685 during fiscal year 2007. Key elements of this increase are shown in the following table.

City's Change in Net Assets

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue:						
Program revenue:						
Charges for services	\$ 185,424	\$ 145,642	\$ 2,284,585	\$ 1,502,099	\$ 2,470,009	\$ 1,647,741
Operating grants and contributions	354,836	275,498	-	-	354,836	275,498
General revenue:						
Property taxes	1,683,342	1,503,021	-	107,752	1,683,342	1,610,773
Grants and contributions not restricted to specific programs	393,558	397,920	-	4,856	393,558	402,776
Other	273,827	237,201	106,680	69,804	380,507	307,005
Total revenue	2,890,987	2,559,282	2,391,265	1,684,511	5,282,252	4,243,793
Expenses:						
General government	554,555	548,579	-	-	554,555	548,579
Public safety	814,439	782,492	-	-	814,439	782,492
Public works	734,259	864,780	-	-	734,259	864,780
Economic development	114,755	23,459	-	-	114,755	23,459
Recreation and cultural	246,954	224,812	-	-	246,954	224,812
Interest on long-term debt	45,815	56,868	102,506	121,741	148,321	178,609
Sewer and water	-	-	1,949,146	1,486,555	1,949,146	1,486,555
Total expenses	2,510,777	2,500,990	2,051,652	1,608,296	4,562,429	4,109,286
Net income before capital contributions	380,210	58,292	339,613	76,215	719,823	134,507
Capital contributions	-	-	157,862	145,975	157,862	145,975
Change in net assets	380,210	58,292	497,475	222,190	877,685	280,482
Net assets, beginning of year	4,743,020	4,684,728	4,389,931	4,167,741	9,132,951	8,852,469
Net assets, end of year	\$ 5,123,230	\$ 4,743,020	\$ 4,887,406	\$ 4,389,931	\$ 10,010,636	\$ 9,132,951

Governmental Activities

The increase in operating grants and contributions are primarily due to new rental rehabilitation programs financed by federal funds. Charges for services increased due to development fee revenues and higher equipment rental revenues.

Expenses for public works decreased due to delayed spending on parking lot and sidewalk improvement projects and reduced supervision costs. Increased economic development expenses resulted from new programs for rental property rehabilitation.

Business Type Activities

The business type activities consist of the City's water and sewer enterprise funds. Prior to January, 2006, the City obtained its water from City owned wells. Since January 2006, the City has purchased its water from the Huron Regional Water Authority (HRWA). Charges for services reflect customer rate increases which were instituted to cover the additional operating and debt service costs of the purchased water. The City's net assets from these activities increased by \$497,475 with net gains of \$377,423 from the Sewer Fund and \$120,052 from the Water Fund.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unrestricted fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,848,530, an increase of \$403,843 in comparison with the prior year. Seventy percent (\$1,301,609) of this amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to pay for specific capital projects, capital expenditures and debt service.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the unreserved fund balance of the General Fund was \$1,218,074. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total fund expenditures: unrestricted fund balance represents 72% of total General Fund expenditures. The fund balance of the City's General Fund increased by \$215,606 due to higher than expected revenue from property taxes and other sources. General fund expenditures were lower than expected due to planned capital improvements and infrastructure spending which was postponed until 2008.

The primary funds utilized by the City for street construction and maintenance are the Major and Local Street Funds. At the conclusion of the fiscal year, the Major Street Fund had a fund balance of \$210,322 (an increase of \$29,855). The City's Local Street Fund balance increased by \$42,748. Fund balances of non-major governmental funds increased by \$150,052. The fund balance of the Drain Fund increased by \$96,980 due to increased millages for future drain projects.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of Sewer and Water funds at the end of the year amounted to \$2,667,492. The Sewer and Water Funds had an increase in net assets for the year of \$497,745. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business type activities.

The Equipment Rental Internal Service Fund has unrestricted net assets of \$697,107 which represents an increase of \$44,751 during the current fiscal year.

General Fund Budgetary Highlights

The original budget was amended for higher than expected State shared revenues, property taxes, investment income and permits. Expenditure budgets were amended to reflect a \$48,000 decrease in public works spending due to a delay in parking lot and sidewalk improvement projects. Conversely, public safety budgets were increased to reflect a \$34,000 increase to police department costs. Total spending was \$72,009 lower than final budgeted amounts due primarily to favorable public works spending and unspent parks and recreation capital outlay budgets.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2007, amounted to \$13,075,602. This investment in capital assets includes land, buildings and improvements, systems, equipment, and infrastructure. The total increase in the City's investment in capital assets for the fiscal year was \$5,049,576.

Major capital asset expenditures during the fiscal year included the following:

- Wastewater treatment plant improvements
- Paving and street reconstruction

The table below shows the City's Capital Assets as of June 30, 2007 and 2006.

City's Capital Assets

(net of depreciation)

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 446,148	\$ 446,148	\$ -	\$ -	\$ 446,148	\$ 446,148
Buildings and improvements	468,861	498,613	-	-	468,861	498,613
Systems	-	-	3,987,288	4,143,371	3,987,288	4,143,371
Equipment	181,765	231,502	-	-	181,765	231,502
Infrastructure	2,268,972	2,396,935	-	-	2,268,972	2,396,935
Constuction in progress	-	-	5,722,568	309,457	5,722,568	309,457
Total net assets	<u>\$ 3,365,746</u>	<u>\$ 3,573,198</u>	<u>\$ 9,709,856</u>	<u>\$ 4,452,828</u>	<u>\$ 13,075,602</u>	<u>\$ 8,026,026</u>

Additional information on the City's capital assets can be found in Note 5 on pages 33 - 35 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$8,330,450. These amounts are summarized below.

City's Outstanding Debt

General Obligation and Revenue Bonds

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Drain assessments	\$ 408,459	\$ 491,851	\$ -	\$ -	\$ 408,459	\$ 491,851
Revenue/Special assessment bonds	-	-	7,489,942	2,003,437	7,489,942	2,003,437
Installment contracts	291,851	337,495	-	-	291,851	337,495
Land contracts	140,198	156,714	-	-	140,198	156,714
Total net assets	<u>\$ 840,508</u>	<u>\$ 986,060</u>	<u>\$ 7,489,942</u>	<u>\$ 2,003,437</u>	<u>\$ 8,330,450</u>	<u>\$ 2,989,497</u>

The City's total debt increased by \$5,340,953 during the current fiscal year. The City had new debt of \$5,703,769 for the wastewater treatment plant improvements.

Additional information on the City's long-term debt can be found in Note 8 on pages 37 - 39 of this report.

Economic Factors and Next Year's Budgets and Rates

- Governmental fund budgets for the fiscal year ending June 30, 2008 anticipate an overall gain of \$167,205. The majority of this amount will be in the General Fund.
- The City is in the process of developing an Asset Management Plan. This plan will identify those streets that require immediate attention followed by increased paving and repair which may require the use of any excess funds.
- The 2008 budget is based on total property tax levies of 18.56 mills which are down one mill from property taxes levied in 2007. The City had previously levied one mill of property tax to operate the Bad Axe Public Library which will become the Bad Axe District Library effective on December 31, 2007 and will no longer be a component unit of the City.
- The City's governmental fund balances are expected to total \$2,015,735 which represents about 70% of the budgeted expenditures of those funds for 2008.
- As of October 2007, the City has completed improvements to its Waste Water Treatment Plant at a final cost of \$6,630,000.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Kay Goebel, City Clerk, 300 E. Huron Avenue, Bad Axe, MI 48413.

Basic Financial Statements

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 2,058,695	\$ 1,042,308	\$ 3,101,003	\$ 125,295
Cash not qualifying as cash equivalents	443,648	1,411,005	1,854,653	124,829
Receivables, net of allowance	173,841	742,483	916,324	4,587
Special assessments	182,744	-	182,744	-
Internal balances	3,769	(3,769)	-	-
Due from component units	12,709	-	12,709	-
Due from fiduciary fund	807	-	807	-
Deferred charges	-	39,868	39,868	-
Prepays	5,670	-	5,670	1,727
Capital assets, net	3,365,746	9,709,856	13,075,602	251,495
Total assets	6,247,629	12,941,751	19,189,380	507,933
LIABILITIES:				
Accounts payable	67,336	91,114	158,450	12,012
Retainage payable	-	445,019	445,019	-
Accrued payroll and liabilities	84,559	20,899	105,458	2,214
Accrued interest	17,663	7,371	25,034	-
Due to primary government	-	-	-	12,709
Deferred revenue	1,607	-	1,607	166
Noncurrent liabilities:				
Due within one year	122,787	531,308	654,095	2,000
Due in more than one year	830,447	6,958,634	7,789,081	82,771
Total liabilities	1,124,399	8,054,345	9,178,744	111,872
NET ASSETS:				
Investment in capital assets, net	2,525,238	2,219,914	4,745,152	251,495
Restricted:				
Capital projects	200,716	-	200,716	-
Debt service	101,632	-	101,632	-
Other purposes	427,317	-	427,317	27,629
Unrestricted	1,868,327	2,667,492	4,535,819	116,937
Total net assets	\$ 5,123,230	\$ 4,887,406	\$ 10,010,636	\$ 396,061

The notes to financial statements are an integral part of this statement.

City of Bad Axe, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 554,555	\$ 39,447	\$ -	\$ -
Public safety	814,439	11,909	2,078	-
Public works	734,259	56,735	263,669	-
Economic development	114,755	2,557	89,089	-
Recreation and cultural	246,954	74,776	-	-
Interest on long-term debt	45,815	-	-	-
Total governmental activities	2,510,777	185,424	354,836	-
Business type activities:				
Sewer	781,228	1,176,239	-	44,762
Water	1,167,918	1,108,346	-	113,100
Interest on long-term debt	102,506	-	-	-
Total business type activities	2,051,652	2,284,585	-	157,862
Total primary government	\$ 4,562,429	\$ 2,470,009	\$ 354,836	\$ 157,862
Component units:				
Economic Development Corporation	\$ -	\$ -	\$ -	\$ -
Downtown Development Authority	36,128	-	-	-
Library	217,411	70,782	-	-
Total component units	\$ 253,539	\$ 70,782	\$ -	\$ -
General revenues:				
Property taxes				
State sources				
Special assessments				
Unrestricted investment income				
Gain on sale of equipment				
Miscellaneous				
Total general revenues				
Change in net assets				
Net assets, beginning of year				
Net assets, end of year				

The notes to financial statements are an integral part of this statement.

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Change in Net Assets			
Governmental Activities	Primary Government		Component Units
	Business Type Activities	Total	
\$ (515,108)	\$ -	\$ (515,108)	\$ -
(800,452)	-	(800,452)	-
(413,855)	-	(413,855)	-
(23,109)	-	(23,109)	-
(172,178)	-	(172,178)	-
(45,815)	-	(45,815)	-
<u>(1,970,517)</u>	<u>-</u>	<u>(1,970,517)</u>	<u>-</u>
-	439,773	439,773	-
-	53,528	53,528	-
-	(102,506)	(102,506)	-
<u>-</u>	<u>390,795</u>	<u>390,795</u>	<u>-</u>
<u>(1,970,517)</u>	<u>390,795</u>	<u>(1,579,722)</u>	<u>-</u>
-	-	-	-
-	-	-	(36,128)
-	-	-	(146,629)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(182,757)</u>
1,683,342	-	1,683,342	141,443
393,558	-	393,558	7,276
9,031	-	9,031	-
83,400	106,680	190,080	5,550
785	-	785	-
180,611	-	180,611	74,992
<u>2,350,727</u>	<u>106,680</u>	<u>2,457,407</u>	<u>229,261</u>
380,210	497,475	877,685	46,504
<u>4,743,020</u>	<u>4,389,931</u>	<u>9,132,951</u>	<u>349,557</u>
<u>\$ 5,123,230</u>	<u>\$ 4,887,406</u>	<u>\$ 10,010,636</u>	<u>\$ 396,061</u>

The notes to financial statements are an integral part of this statement.

	Major Funds		
	<u>General</u>	<u>Major Street</u>	<u>Brick Street Assessment</u>
ASSETS			
Assets			
Cash and cash equivalents	\$ 1,224,394	\$ 221,925	\$ 5,783
Cash not qualifying as cash equivalents	1,500	-	-
Receivables:			
Taxes	1,219	-	-
Other governmental units	129,119	26,769	-
Special assessments	-	-	182,744
Due from other funds	70,608	-	5,500
Due from component units	12,709	-	-
Prepays	5,670	-	-
	<u>\$ 1,445,219</u>	<u>\$ 248,694</u>	<u>\$ 194,027</u>
Total assets			
	<u>\$ 1,445,219</u>	<u>\$ 248,694</u>	<u>\$ 194,027</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 45,906	\$ 1,345	\$ -
Accrued payroll and liabilities	66,948	11,138	-
Due to other funds	113,072	25,889	10,000
Deferred revenue	1,219	-	182,744
	<u>227,145</u>	<u>38,372</u>	<u>192,744</u>
Total liabilities			
	<u>227,145</u>	<u>38,372</u>	<u>192,744</u>
Fund Balances			
Reserved:			
Capital projects	-	-	1,283
Debt service	-	-	-
Other purposes	-	210,322	-
Unreserved	1,218,074	-	-
	<u>1,218,074</u>	<u>210,322</u>	<u>1,283</u>
Total fund balances			
	<u>1,218,074</u>	<u>210,322</u>	<u>1,283</u>
Total liabilities and fund balances	<u>\$ 1,445,219</u>	<u>\$ 248,694</u>	<u>\$ 194,027</u>

Governmental Funds
Balance Sheet
June 30, 2007

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 358,230	\$ 1,810,332
12,890	14,390
388	1,607
16,346	172,234
-	182,744
81,060	157,168
-	12,709
-	5,670
<u>\$ 468,914</u>	<u>\$ 2,356,854</u>
\$ 12,741	\$ 59,992
6,337	84,423
30,597	179,558
388	184,351
<u>50,063</u>	<u>508,324</u>
16,689	17,972
101,632	101,632
216,995	427,317
83,535	1,301,609
<u>418,851</u>	<u>1,848,530</u>
<u>\$ 468,914</u>	<u>\$ 2,356,854</u>

The notes to financial statements are an integral part of this statement.

**Reconciliation of Fund Balance on the Balance Sheet for
Governmental Funds to Net Assets of Governmental Activities
on the Statement of Net Assets
June 30, 2007**

Fund balance, total governmental funds		\$ 1,848,530
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets	6,069,772	
Accumulated depreciation	<u>(2,852,118)</u>	3,217,654
Long-term receivables such as special assessments are expected to be collected over several years in the governmental funds and are not available to pay for current year expenditures.		
		182,744
Internal Service Fund used by management to charge cost of equipment used. The assets and liabilities of the internal service fund are included in the governmental activities statement of net assets.		
		845,199
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Drain assessments	(408,459)	
Notes payable	(432,049)	
Accrued interest payable	(17,663)	
Accrued compensated absence	<u>(112,726)</u>	<u>(970,897)</u>
Net assets, governmental activities		<u>\$ 5,123,230</u>

City of Bad Axe, Michigan

	Major Funds		
	General	Major Street	Brick Street Assessment
Revenues:			
Property taxes	\$ 1,266,950	\$ -	\$ -
Licenses and permits	35,722	-	-
Federal sources	-	-	-
State sources	381,245	192,040	-
Charges for services	2,557	-	-
Special assessments	-	-	32,801
Fines and forfeitures	8,123	-	-
Interest income	42,513	4,283	1,246
Rental income	3,725	-	-
Miscellaneous	172,024	698	-
Total revenues	1,912,859	197,021	34,047
Expenditures:			
General government	502,644	-	-
Public safety	813,444	-	-
Public works	247,659	129,181	-
Economic development	25,666	-	-
Recreation and cultural	82,315	-	-
Debt service:			
Principal	16,516	-	24,600
Interest and charges	9,009	-	6,617
Total expenditures	1,697,253	129,181	31,217
Excess of revenues over expenditures	215,606	67,840	2,830
Other financing sources (uses):			
Transfers in	-	-	5,500
Transfers out	-	(37,985)	-
Total other financing sources (uses)	-	(37,985)	5,500
Excess of revenue and other financing sources over expenditures and other financing uses	215,606	29,855	8,330
Fund balance, beginning of year	1,002,468	180,467	(7,047)
Fund balance, end of year	\$ 1,218,074	\$ 210,322	\$ 1,283

The notes to financial statements are an integral part of this statement.

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2007

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 416,392	\$ 1,683,342
-	35,722
89,089	89,089
86,020	659,305
58,887	61,444
-	32,801
3,786	11,909
7,492	55,534
15,889	19,614
41,910	214,632
<u>719,465</u>	<u>2,863,392</u>
-	502,644
3,261	816,705
221,119	597,959
89,089	114,755
171,758	254,073
83,392	124,508
33,279	48,905
<u>601,898</u>	<u>2,459,549</u>
117,567	403,843
147,985	153,485
<u>(115,500)</u>	<u>(153,485)</u>
<u>32,485</u>	<u>-</u>
150,052	403,843
<u>268,799</u>	<u>1,444,687</u>
<u>\$ 418,851</u>	<u>\$ 1,848,530</u>

The notes to financial statements are an integral part of this statement.

**Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance of the Governmental Funds
to the Statement of Activities
Year Ended June 30, 2007**

Net change in fund balance, total governmental funds		\$ 403,843
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay	89,101	
Depreciation expense	<u>(266,886)</u>	(177,785)
<p>Revenue, such as special assessment revenue, reported in the statement of activities in previous years did not provide current financial resources in the governmental funds until the current year.</p>		
		(23,770)
<p>Internal service fund used by management to charge costs of equipment used. The net revenues (expenses) attributable to this fund is reported with governmental activities.</p>		
		44,751
<p>The issuance of long-term debt (e.g. bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net assets.</p>		
Principal payments on long term liabilities		145,552
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>		
Decrease in accrued interest payable	3,090	
Increase in accrued compensated absences	<u>(15,471)</u>	<u>(12,381)</u>
Change in net assets, governmental activities		<u>\$ 380,210</u>

City of Bad Axe, Michigan

**Proprietary Funds
Statement of Net Assets
June 30, 2007**

	Major Funds		Total Enterprise Funds	Governmental Activities
	Sewer	Water		Internal Service Fund
Assets:				
Current assets:				
Cash and cash equivalents	\$ 792,947	\$ 249,361	\$ 1,042,308	\$ 248,363
Cash not qualifying as cash equivalents	-	1,411,005	1,411,005	429,258
Receivables:				
Interest and accounts	158,121	139,343	297,464	-
Other governmental units	445,019	-	445,019	
Due from other funds	32,012	131,471	163,483	43,707
Total current assets	1,428,099	1,931,180	3,359,279	721,328
Non-current assets:				
Deferred charges	35,004	4,864	39,868	-
Capital assets, net	8,634,941	1,074,915	9,709,856	148,092
Total non-current assets	8,669,945	1,079,779	9,749,724	148,092
Total assets	10,098,044	3,010,959	13,109,003	869,420
Liabilities:				
Current liabilities:				
Accounts payable	13,290	77,824	91,114	7,344
Retainage payable	445,019	-	445,019	
Accrued payroll and liabilities	12,470	8,429	20,899	136
Accrued interest	6,472	899	7,371	-
Due to other funds	145,829	21,423	167,252	16,741
General obligation bonds	501,258	30,050	531,308	-
Total current liabilities	1,124,338	138,625	1,262,963	24,221
Long-term liabilities (net of current portion):				
General obligation bonds	6,770,771	187,863	6,958,634	-
Total liabilities	7,895,109	326,488	8,221,597	24,221
Net assets:				
Investment in capital assets, net	1,362,912	857,002	2,219,914	148,092
Unrestricted:				
Designated:				
Other purposes	-	73,623	73,623	-
Undesignated	840,023	1,753,846	2,593,869	697,107
Total net assets	\$ 2,202,935	\$ 2,684,471	\$ 4,887,406	\$ 845,199

The notes to financial statements are an integral part of this statement.

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2007

	Major Funds		Total Enterprise Funds	Governmental Activities Internal Service Fund
	Sewer	Water		
Operating revenues:				
Waste collection fees	\$ 137,640	\$ -	\$ 137,640	\$ -
Water usage fees	-	1,071,490	1,071,490	-
Sewer usage fees	986,292	-	986,292	-
Equipment rentals	-	-	-	215,019
Permits and tap fees	4,932	4,070	9,002	-
Other	47,375	32,786	80,161	5,525
Total operating revenues	1,176,239	1,108,346	2,284,585	220,544
Operating Expenses:				
Cost of waste collection	136,065	-	136,065	-
Cost of water operations	-	1,051,951	1,051,951	-
Cost of sewage treatment	453,810	-	453,810	-
Operations and maintenance	-	-	-	110,191
Depreciation	148,673	70,408	219,081	70,713
General and administrative	42,680	45,559	88,239	23,540
Total operating expenses	781,228	1,167,918	1,949,146	204,444
Operating income (loss)	395,011	(59,572)	335,439	16,100
Non-operating revenues (expenses):				
Interest income	26,209	80,471	106,680	27,866
Interest expense	(88,559)	(13,947)	(102,506)	-
Gain on sale of equipment	-	-	-	785
Total non-operating revenue (expenses)	(62,350)	66,524	4,174	28,651
Net income before capital contributions	332,661	6,952	339,613	44,751
Capital contributions	44,762	113,100	157,862	-
Change in net assets	377,423	120,052	497,475	44,751
Net assets, beginning of year	1,825,512	2,564,419	4,389,931	800,448
Net assets, end of year	\$ 2,202,935	\$ 2,684,471	\$ 4,887,406	\$ 845,199

The notes to financial statements are an integral part of this statement.

Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2007

	Total Enterprise Funds	Governmental Activities Internal Service Fund
Cash flows from operating activities:		
Receipts from customers	\$ 2,231,992	\$ 208,453
Payments to employees	(282,009)	(13,089)
Payments to suppliers	<u>(1,465,325)</u>	<u>(141,211)</u>
Net cash provided by operating activities	484,658	54,153
Cash flows from noncapital financing activities:		
Interfund activity	<u>(18,869)</u>	<u>-</u>
Net cash used by noncapital financing activities	(18,869)	-
Cash flows from capital and related financing activities:		
Sale of equipment	-	785
Acquisition and construction of capital assets	(4,949,293)	(41,046)
Capital charges	94,864	
Bond proceeds	5,258,750	
Principal paid on bond debt and leases	(225,000)	-
Interest paid on bond debt and leases	<u>(114,541)</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	64,780	(40,261)
Cash flows from investing activities:		
Investment income	106,680	27,866
Purchases of investments	(2,119,196)	(429,258)
Maturity of investments	<u>1,057,738</u>	<u>-</u>
Net cash used by investing activities	<u>(954,778)</u>	<u>(401,392)</u>
Net decrease in cash and cash equivalents	(424,209)	(387,500)
Cash and cash equivalents, beginning of year	<u>1,466,517</u>	<u>635,863</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,042,308</u></u>	<u><u>\$ 248,363</u></u>

The notes to financial statements are an integral part of this statement.

**Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2007
(Continued)**

	Total Enterprise Funds	Governmental Activities Internal Service Fund
Reconciliation of operating income to net cash provided by operating activities:		
Operating income for the year	\$ 335,439	\$ 16,100
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	219,081	70,713
Amortization of bond costs	6,413	-
Change in assets and liabilities:		
Receivables	(52,643)	(12,091)
Due from other funds	(139,489)	
Accounts payable	(31,673)	1,586
Accrued and other liabilities	(2,544)	56
Due to other funds	150,074	(22,211)
Net cash provided by operating activities	<u>\$ 484,658</u>	<u>\$ 54,153</u>

Fiduciary Funds
Statement of Net Assets
June 30, 2007

	Current Tax Collection
Assets	
Cash and cash equivalents	<u>\$ 807</u>
Liabilities	
Due to other funds	<u>\$ 807</u>

The notes to financial statements are an integral part of this statement.

Discretely Presented Component Units
Combining Statement of Net Assets
June 30, 2007

	Economic Development Corporation	Downtown Development Authority	Library	Total
Assets:				
Cash and cash equivalents	\$ -	\$ 53,819	\$ 71,476	\$ 125,295
Cash not qualifying as cash equivalents	4,128	93,072	27,629	124,829
Receivables:				
Taxes	-	-	166	166
Interest and accounts	-	-	4,421	4,421
Prepays	-	-	1,727	1,727
Capital assets, net	-	-	251,495	251,495
Total assets	4,128	146,891	356,914	507,933
Liabilities:				
Accounts payable	-	12,012	-	12,012
Accrued payroll and liabilities	-	-	2,214	2,214
Due to primary government	-	1,680	11,029	12,709
Deferred revenue	-	-	166	166
Noncurrent liabilities:				
Due within one year	-	2,000	-	2,000
Due in more than one year	-	82,771	-	82,771
Total liabilities	-	98,463	13,409	111,872
Net assets:				
Investment in capital assets, net	-	-	251,495	251,495
Restricted:				
Other purposes	-	-	27,629	27,629
Unrestricted	4,128	48,428	64,381	116,937
Total net assets	\$ 4,128	\$ 48,428	\$ 343,505	\$ 396,061

The notes to financial statements are an integral part of this statement.

**Discretely Presented Component Units
Combining Statement of Activities
For the Year Ended June 30, 2007**

	Expenses	Net Expenses and Change in Net Assets			
		Economic Development Corporation	Downtown Development Authority	Library	Total
Governmental activities:					
Public works	\$ 9,374	\$ -	\$ (9,374)	\$ -	\$ (9,374)
Recreation and cultural	217,411	-	-	(217,411)	(217,411)
Debt service	26,754	-	(26,754)	-	(26,754)
Total	<u>\$ 253,539</u>	-	(36,128)	(217,411)	(253,539)
Program revenue		-	-	70,782	70,782
Net governmental activities		-	(36,128)	(146,629)	(182,757)
General revenue:					
Property taxes		-	57,987	83,456	141,443
State sources		-	-	7,276	7,276
Unrestricted investment income		-	3,448	2,102	5,550
Miscellaneous		-	25	74,967	74,992
Total general revenue		-	61,460	167,801	229,261
Change in net assets		-	25,332	21,172	46,504
Net assets, beginning of year		4,128	23,096	322,333	349,557
Net assets, end of year		<u>\$ 4,128</u>	<u>\$ 48,428</u>	<u>\$ 343,505</u>	<u>\$ 396,061</u>

The notes to financial statements are an integral part of this statement.

Notes To Financial Statements

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the City of Bad Axe, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Bad Axe, Michigan:

Reporting Entity

The City of Bad Axe, Michigan is governed by an elected mayor and six-member council. The City is located in Huron County, Michigan, and has approximately 3,500 residents. Services provided to City residents include law enforcement, community enrichment and development, and human services. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. As defined by GASB Statement 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Discretely Presented Component Units - The discretely presented component units' column in the combined financial statements include the financial data of the City's component units. The governing bodies of these component units are appointed by the City Council.

- a. The City of Bad Axe Downtown Development Authority (DDA) is a legally separate entity which promotes the economic growth of the business district of which it is composed.
- b. The City of Bad Axe Economic Development Corporation (EDC) is a legally separate entity which provides economic development assistance to businesses in the City.
- c. The Bad Axe Public Library provides library services to City residents. The City allocates tax millages to the Library, approves the Library's budgets and appoints the Library Board.

Administrative Offices

City of Bad Axe Downtown Development Authority
300 East Huron Avenue
Bad Axe, MI 48413

City of Bad Axe Economic Development Corporation
300 East Huron Avenue
Bad Axe, MI 48413

Bad Axe Public Library
200 South Hanselman Street
Bad Axe, MI 48413

The City participates in a cooperative unit with the Bad Axe Fire Protection Association and the Central Huron Ambulance Service Association. See Note 12 entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented component units for which the City is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments collected in the current fiscal period, and interest. All other revenue items are considered available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "major roads" within the City. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of 1951, as amended.
- The Brick Street Assessment Fund is used to account for the construction activity for local improvements that benefit property owners.

The City reports the following major enterprise funds:

- The Sewer Fund accounts for the activity of the sewage collection system administered by the City.
- The Water Fund accounts for the activity of the water distribution system administered by the City.

Additionally, the City reports the following fund types:

- The Internal Service Fund is used to account for the charges for equipment rental to funds and departments.
- The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

Private sector standards of accounting issued before December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to apply private sector standards issued after November 30, 1989 for its Enterprise Funds.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds and of the City's internal service funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Cash and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes – Property taxes are assessed as of December 31. The related property taxes are billed on December 1 of the following year and become a lien at that time. These taxes are payable at the City until February 15 without penalty. The final collection date by the City Treasurer is February 28 before they are added to the County tax rolls.

Inventories – Inventories of governmental funds are recorded as expenditures when purchased.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has adopted the policy of capitalizing net interest costs on funds borrowed to finance the construction of proprietary fund fixed assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Drains	20 years
Roads and sidewalks	20 years
Land improvements	15 – 40 years
Buildings and building improvements	30 years
Vehicles	5 years
Machinery and equipment	7 – 20 years
Office equipment and furniture	5 – 10 years
Water and sewer distribution systems	20 – 40 years

Compensated Absences – It is the City's policy to permit employees to accumulate earned but unused sick pay benefits, up to a maximum of 960 hours. Any hours in excess of the maximum is paid to the employees at a 50% rate, up to 40 hours. Upon termination of employment, City employees receive up to 50% of their sick pay accumulations depending upon years of service. Unused employee vacation time is paid to employees annually on their anniversary date or contract date. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment generally when the time is taken off, or employees terminate.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 – Stewardship, Compliance and Accountability

The City Charter establishes the fiscal year as the twelve-month period beginning July 1. In April, the departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year. The City Manager submits a budget of estimated expenditures and revenues by the second regular City Council meeting in May. The City Council, subsequently, holds a budget hearing on the proposed budget at the first meeting in June.

The City Council legally enacts the budget at its second meeting in June through the passage of a budget resolution. The City Manager is authorized to make budgetary transfers within the appropriation centers and funds. All fund budgets are adopted at the departmental level for appropriation centers. Appropriations lapse at the end of each fiscal year.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budget expenditures for budgetary funds have been shown on a functional basis. The budget approved by the Council for the City's General, Special Revenue and Proprietary Funds were adopted at the departmental level. Budgets approved for the City's Debt Service and Component Unit Funds are adopted at the total expenditure level. The budgets were amended during the last quarter of the year to reflect certain changes in expenditure levels.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the City incurred expenditures at the budgetary center level over budget as follows:

<u>Fund</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Excess</u>
Primary government:			
General fund:			
Public safety	\$ 800,795	\$ 813,444	\$ 12,649
Special revenue funds:			
Major Street			
Transfers out	35,330	37,985	2,655
Parks and recreation			
Recreational and cultural	155,443	171,758	16,315
Drug law enforcement			
Public safety	3,103	3,261	158
Rental rehab grant			
Economic development	-	89,089	89,089
Component units:			
Library			
Recreation and cultural	198,413	206,555	8,142

Note 3 – Receivables

Receivables as of June 30, 2007 were as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Component Units</u>
Taxes	\$ 1,607	\$ -	\$ 166
Accounts, net of allowance for uncollectibles of \$3,000	-	297,464	4,421
Due from other governments	172,234	445,019	-
Special assessments:			
Due within one year	40,679	-	-
Due in more than one year	142,065	-	-
Total	<u>\$ 356,585</u>	<u>\$ 742,483</u>	<u>\$ 4,587</u>

Note 4 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptances of United States banks;

commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The investment policy adopted by the Board has authorized investments to those listed under the State's statutory authority as noted above. The City's deposits and investments are in accordance with statutory authority, except that the City's Library discretely presented component unit has invested \$50,722 in a mutual fund which is not authorized by Michigan investment statutes.

At year end, the City's cash and investments were reported in the accompanying financial statements in the following categories:

	Governmental Activities	Business Type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash and cash equivalents	\$ 2,058,695	\$ 1,042,308	\$ 3,101,003	\$ 807	\$ 125,295
Cash not qualifying as cash equivalents	443,648	1,411,005	1,854,653	-	124,829
Total	<u>\$ 2,502,343</u>	<u>\$ 2,453,313</u>	<u>\$ 4,955,656</u>	<u>\$ 807</u>	<u>\$ 250,124</u>
	Governmental Activities	Business Type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash on hand	\$ 350	\$ 25	\$ 375	\$ 300	\$ 200
Demand deposits	2,501,993	2,452,718	4,954,711	507	199,202
Investment pools	-	570	570	-	50,722
Total	<u>\$ 2,502,343</u>	<u>\$ 2,453,313</u>	<u>\$ 4,955,656</u>	<u>\$ 807</u>	<u>\$ 250,124</u>

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. At year end, the City's primary government, fiduciary funds and component units had \$3,589,951 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. On the investment listed below, there is no custodial credit risk, as this investment is uncategorized as to credit risk.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Business Type Activities		
Investment pools		
Independent Financial Services	\$ 570	N/A
Component Units		
Investment pools		
Heritage Cash Trust	\$ 50,722	N/A

Interest Rate Risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk. None of the City's investments were subject to credit risk ratings.

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

Note 5 – Capital Assets

Capital asset activity of the City's governmental and business type activities was as follows:

	Balance June 30, 2006	Additions	Disposals & Adjustments	Balance June 30, 2007
Governmental activities:				
Primary government:				
Capital assets not being depreciated:				
Land	\$ 446,148	\$ -	\$ -	\$ 446,148
Capital assets being depreciated:				
Drains	1,523,525	-	-	1,523,525
Roads	1,960,048	89,101	-	2,049,149
Streetscape improvements	1,026,049	-	-	1,026,049
Buildings and improvements	583,488	-	-	583,488
Land improvements	266,465	-	-	266,465
Machinery and equipment	836,768	11,396	1,900	846,264
Vehicles	381,794	29,650	-	411,444
Subtotal	6,578,137	130,147	1,900	6,706,384
Accumulated depreciation:				
Drains	882,098	76,176	-	958,274
Roads	723,453	89,585	-	813,038
Streetscape improvements	507,136	51,303	-	558,439
Buildings and improvements	263,326	16,179	-	279,505
Land improvements	88,014	13,573	-	101,587
Machinery and equipment	672,293	64,970	1,900	735,363
Vehicles	314,767	25,813	-	340,580
Subtotal	3,451,087	337,599	1,900	3,786,786
Net capital assets being depreciated	3,127,050	(207,452)	-	2,919,598
Capital assets, net	<u>\$ 3,573,198</u>	<u>\$ (207,452)</u>	<u>\$ -</u>	<u>\$ 3,365,746</u>

Notes to Financial Statements
June 30, 2007
(Continued)

	Balance June 30, 2006	Additions	Disposals & Adjustments	Balance June 30, 2007
Business type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 309,457	\$ 5,413,111	\$ -	\$ 5,722,568
Capital assets being depreciated:				
Sewer system	6,451,240	-	-	6,451,240
Water system	1,945,068	62,998	-	2,008,066
Subtotal	8,396,308	62,998	-	8,459,306
Accumulated depreciation:				
Sewer system	3,390,194	148,673	-	3,538,867
Water system	862,743	70,408	-	933,151
Subtotal	4,252,937	219,081	-	4,472,018
Net capital assets being depreciated	4,143,371	(156,083)	-	3,987,288
Capital assets, net	4,452,828	5,257,028	-	9,709,856
Total primary government	<u>\$ 8,026,026</u>	<u>\$ 5,049,576</u>	<u>\$ -</u>	<u>\$ 13,075,602</u>
Discretely presented component units:				
Capital assets not being depreciated:				
Land	\$ 7,000	\$ -	\$ -	\$ 7,000
Capital assets being depreciated:				
Buildings and improvements	457,918	-	-	457,918
Machinery and equipment	61,972	4,688	3,390	63,270
Books and media	128,531	22,317	26,208	124,640
Subtotal	648,421	27,005	29,598	645,828
Accumulated depreciation:				
Buildings and improvements	268,566	10,320	-	278,886
Machinery and equipment	58,608	2,224	3,390	57,442
Books and media	65,896	25,317	26,208	65,005
Subtotal	393,070	37,861	29,598	401,333
Net capital assets being depreciated	255,351	(10,856)	-	244,495
Capital assets, net	<u>\$ 262,351</u>	<u>\$ (10,856)</u>	<u>\$ -</u>	<u>\$ 251,495</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 49,822
Public safety	19,960
Public works	264,774
Recreation and cultural	3,043
Total governmental activities	<u>\$ 337,599</u>
Business type activities:	
Sewer system	\$ 148,673
Water system	70,408
Total business type activities	<u>\$ 219,081</u>
Component units:	
Recreation and cultural	<u>\$ 37,861</u>

Note 6 – Interfund Receivables, Payables, and Transfers

The interfund balances are comprised of the following:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General fund:		
Operations	\$ 83,317	\$ 113,072
Special revenue funds:		
Major Street	-	25,889
Brick Street Assessment	5,500	10,000
Local Street	-	29,347
Parks and Recreation	81,060	1,250
	<u>86,560</u>	<u>66,486</u>
Enterprise funds:		
Sewer	32,012	145,829
Water	131,471	21,423
	<u>163,483</u>	<u>167,252</u>
Internal service funds:		
Motor Vehicle Equipment	43,707	16,741
Agency funds:		
Tax	-	807
Component units:		
Downtown Development Authority	-	1,680
Library	-	11,029
	<u>-</u>	<u>12,709</u>
	<u>\$ 377,067</u>	<u>\$ 377,067</u>

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers are comprised of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>	
Special revenue funds:			
Major Street	\$ -	\$ 37,985	(a)
Local Street	147,985	5,500	(c)
County Road Millage	-	110,000	(b)
Brick Street Assessment	<u>5,500</u>	<u>-</u>	
	<u>\$ 153,485</u>	<u>\$ 153,485</u>	

(a) Allowable transfer under Act 51 in the amount of \$37,985

(b) Transfer for capital improvements

(c) Transfer for deficit fund balance reduction

Note 7 – Payables

Accounts payable and accrued liabilities in the primary government are as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Accounts	\$ 67,336	\$ 91,114
Wages, fringe benefits and other accrued liabilities	84,559	20,899
Retainage payable	-	445,019
Accrued interest payable	<u>17,663</u>	<u>7,371</u>
Total	<u>\$ 169,558</u>	<u>\$ 564,403</u>

Note 8 – Long-Term Debt

A summary of changes in long-term debt is as follows:

	Balance June 30, 2006	Additions (Retirements)	Balance June 30, 2007	Due Within One Year
<u>Governmental activities:</u>				
<u>General Obligation Debt:</u>				
Other Long-term Obligations:				
Drain assessments payable - Bad Axe Drain - Phase I, due in annual installments of \$24,066 plus interest annually at 7.000% through March 1, 2007 (a)	\$ 24,066	\$ (24,066)	\$ -	\$ -
Drain assessments payable - Bad Axe Drain - Phase II, due in annual installments of \$52,500 plus interest annually at 6.720% through March 1, 2014 (a)	420,000	(52,500)	367,500	52,500
Drain assessments payable - Crumback Drain, due in annual installments of \$6,826 to \$6,827 plus interest annually at 4.750% to 5.000% through March 1, 2013 (a)	47,785	(6,826)	40,959	6,827
\$140,000 land contract for the purchase of land due in annual installments of \$13,216 including interest at a rate of 7.000% through January 15, 2008; a final payment of \$89,285 is due on January 15, 2009	96,778	(6,442)	90,336	6,892
\$100,000 land contract for the purchase of land, due in annual installments of \$10,000 plus interest annually at 3.750% through July 1, 2011	59,936	(10,074)	49,862	10,000
\$142,000 installment purchase contract for DDA Streetscape capital project, due in annual installments of \$17,507 including interest at 4.000% through October 1, 2011(b)	92,068	(13,771)	78,297	14,375
\$75,000 installment purchase contract for DDA Streetscape capital project, due in annual installments of \$9,247 including interest at 4.000% through October 1, 2011(b)	48,627	(7,273)	41,354	7,593

	Balance June 30, 2006	Additions (Retirements)	Balance June 30, 2007	Due Within One Year
Governmental activities (Continued):				
General Obligation Debt (Continued):				
Other Long-term Obligations (Continued):				
Brick Street Assessment installment contract, due in annual installments of \$24,600 plus interest annually at 2.850% to 3.950% through June 1, 2014	196,800	(24,600)	172,200	24,600
Total other debt	986,060	(145,552)	840,508	122,787
Accumulated Fringe Benefits:				
Vested sick leave	97,255	15,471	112,726	-
Total governmental activities	1,083,315	(130,081)	953,234	122,787
Business type activities:				
County Contractual Obligations:				
\$1,605,000 1996 water supply and sewage disposal bonds - Series B due in annual installments of \$200,000 plus interest semi-annually at 4.750% through December 1, 2007	375,000	(175,000)	200,000	200,000
Less unamortized discount	(7,788)	6,048	(1,740)	(1,740)
Net debt	367,212	(168,952)	198,260	198,260
\$1,900,000 1996 water supply and sewage disposal bonds - Series A due in annual installments of \$50,000 to \$200,000 plus interest semi-annually at 4.125% to 7.125% through December 1, 2015	1,650,000	(50,000)	1,600,000	50,000
Less unamortized discount	(13,775)	1,688	(12,087)	(1,952)
Net debt	1,636,225	(48,312)	1,587,913	48,048
\$6,630,000 2006 sewage disposal bonds - Wastewater Treatment Plant Improvements due in annual installments of \$213,769 to \$365,000 plus interest semi-annually at 1.625% through April 1, 2025	-	5,703,769	5,703,769	285,000
Total business type activities	2,003,437	5,486,505	7,489,942	531,308
Total primary government	\$ 3,086,752	\$ 5,356,424	\$ 8,443,176	\$ 654,095

- (a) The Michigan drain code requires each entity so assessed to pay each assessment installment and interest thereon from its general or contingent fund or to levy ad valorem taxes on all taxable property in the entity for such purposes, subject to applicable charter, statutory and constitutional tax limitations.
- (b) The borrowed funds will be repaid by the DDA with captured taxes on special assessments to the downtown development district. Accordingly, debt service payments are reported in the DDA component unit fund.

Annual debt service requirements to maturity for the above bond obligations, excluding the unamortized discounts are as follows:

Governmental Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 122,787	\$ 45,726	\$ 168,513
2009	200,217	39,419	239,636
2010	117,688	27,645	145,333
2011	118,637	21,626	140,263
2012	120,153	15,521	135,674
2013-2017	<u>161,026</u>	<u>13,816</u>	<u>174,842</u>
	<u>\$ 840,508</u>	<u>\$ 163,753</u>	<u>\$ 1,004,261</u>

Business Type Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 535,000	\$ 171,340	\$ 706,340
2009	465,000	159,211	624,211
2010	470,000	145,923	615,923
2011	495,000	131,798	626,798
2012	500,000	117,005	617,005
2013-2017	2,375,000	367,901	2,742,901
2018-2022	1,725,000	161,182	1,886,182
2023-2025	<u>938,769</u>	<u>28,134</u>	<u>966,903</u>
	<u>\$ 7,503,769</u>	<u>\$ 1,282,494</u>	<u>\$ 8,786,263</u>

In addition to the above debt, the Downtown Development Authority owes the State of Michigan \$96,771. This represents the amount of incorrectly captured school taxes for the 1998 through 2003 levies. These amounts will be repaid in annual payments through 2016.

Note 9 – Property Taxes

The 2006 ad valorem tax levy was based on the following property valuations and millage rates:

Total taxable valuation:	<u>\$ 84,827,437</u>
Millage rates per \$1,000 of taxable valuation:	<u>Mills</u>
General Fund	14.56
Parks Fund	1.00
Library Fund	1.00
Local Street Fund	0.55
Drain Debt Service Fund	<u>2.45</u>
Total mills	<u>19.56</u>

Note 10 – Retirement Plans

Defined Benefit Pension Plan

Plan description

The City contributes to defined benefit pension plans with the Michigan Municipal Employees Retirement System (MERS). All full-time administration, DPW and police employees are eligible to join the plan. The plan became effective August 1, 1999.

The Municipal Employees Retirement System of Michigan (MERS), is an agent multiple-employer, state-wide, public employee pension plan that was created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. Pursuant to Act 220, on August 15, 1996, MERS became an independent public non-profit corporation, which is an instrumentality of the participating municipalities and courts. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. It provides centralized administration and investment of plan assets, but each employer unit is separately experienced rated. MERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

Employees are required to contribute 5% of their annual earnings to the System. The City is required to contribute based on an actuarially determined rate.

Annual pension cost

For 2007, the City's annual pension cost was equal to their required contribution. Actual contributions were made based on the actual payroll paid rather than the estimated payroll used in the actuarial valuation. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) investment rate of return of 8%; (b) projected salary increases ranging from 4.5% to 12.90% per year; and (c) 4.5% per year cost of living increases. The actuarial value of plan assets was determined using methods that smooth the effect of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll.

Three-year information

<u>Year Ending</u>	<u>Annually Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2007	\$ 164,166	100%	\$ -
6/30/2006	158,898	100%	-
6/30/2005	116,083	100%	-

Defined Contribution Pension Plan

One employee of the City participates in a defined contribution pension plan entitled "City of Bad Axe Group Pension Plan". The plan administrator is Manulife. Under the Plan agreement, the City is required to contribute an amount equal to 8.5% of the annual compensation paid to covered employees. Employees are required to contribute an amount equal to 2.5% of their annual compensation. Employees may also make voluntary non-deductible contributions to the Plan up to a maximum of 10% of their annual compensation. Compensation for Plan purposes does not include payments for overtime. Employee non-deductible voluntary contributions may only be withdrawn upon termination of employment, retirement or death. Benefits vest after ten years of service. Employees not wishing to participate in the plan must notify the plan administrator in writing.

All contributions to the Plan are invested with Manulife under an Allocated Retirement Account. Each employee has 11 investment options from the security of a guaranteed account to the opportunities of an aggressive stock fund.

The following pension data is presented for the year ended June 30, 2007:

Total payroll	<u>\$ 1,312,993</u>
Total payroll for employees covered by the plan	<u>\$ 23,368</u>
Employer contribution percentage	8.5%
Employer contribution	<u>\$ 1,986</u>
Employee contribution percentage	2.5%
Required employee contributions	\$ 584
Employee non-deductible voluntary contributions	<u>-</u>
Total employee contributions	<u>\$ 584</u>

Note 11 – Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The City participates in the Michigan Municipal League Liability and Property Pool. The maximum insurance coverages are \$9,266,500 for property damage and \$1,000,000 for liability claims.

Note 12 – Joint Ventures

The City is a constituent member of the Bad Axe Fire Protection Association and the Central Huron Ambulance Service Association, which provides fire protection services and emergency ambulance services to the City of Bad Axe. The City has estimated that its percentage of contributions is 45% and 35% to Bad Axe Fire Protection Association and Central Huron Ambulance Service Association, respectively.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments of any of the above joint ventures in the near future.

Complete financial statements can be obtained from the administrative offices at the following locations:

Bad Axe Fire Protection Association
420 S. Hanselman
Bad Axe, Michigan 48413

Central Huron Ambulance Service Association
291 W. Soper Road
Bad Axe, Michigan 48413

Note 13 – Reserved Fund Balance

The following is a summary of the reserved fund balances of the governmental funds and discretely presented component units:

<u>Reserved For</u>	<u>Major Street</u>	<u>Brick Street Assessment</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Library</u>
Capital projects	\$ -	\$ 1,283	\$ 16,689	\$ -	\$ -
Debt service	-	-	-	101,632	-
Other purposes	<u>210,322</u>	<u>-</u>	<u>216,995</u>	<u>-</u>	<u>27,629</u>
Total	<u>\$ 210,322</u>	<u>\$ 1,283</u>	<u>\$ 233,684</u>	<u>\$ 101,632</u>	<u>\$ 27,629</u>

Note 14 – Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Taxes receivable	\$ 1,607	\$ -
Special assessments	\$ 182,744	\$ -

Note 15 – Jointly Governed Organization

The City of Bad Axe and the Village of Port Austin are members of the Huron Regional Water Authority (HRWA). The Authority was created in 2002 for the purpose of constructing and operating a water treatment plant in Port Austin and a water pipeline to Bad Axe. The City appoints two of the four members to the governing board. The pipeline became fully operational on January 1, 2006. During the year, the City purchased \$197,719 of water from the Authority and had \$588,877 of costs related to the operations and maintenance and debt payments of the pipeline.

The City has irrevocably pledged the net revenues of its water supply system for the separate facility bond payments. In addition, the City has agreed to make additional payments to the Authority for the operation and maintenance expenses to support the Authority. The City has an accounts payable of \$73,235 to the Authority at June 30, 2007.

Note 16 – Construction Project

The City's wastewater treatment plant improvement project is nearing completion at June 30, 2007. This project is being financed by the issuance of Huron County DPW bonds through the Michigan Municipal Bond Authority. The City has entered into a contract with Huron County to repay these bonds. The projects status as of June 30, 2007 is as follows:

Total project	\$ 6,630,000
Spent to date	<u>5,703,769</u>
Remaining commitment	<u>\$ 926,231</u>

Note 17 – Fund Separation

Prior to July 1, 2006, the Water and Sewer Enterprise Funds were accounted for as a single entity. The City separated these funds on July 1, 2006 in order to facilitate rate setting and performance measurement. Accordingly, the accompanying statement of cash flows is presented on a combined basis.

Note 18 – Contingent Liabilities

Various claims and lawsuits are pending against the City. The City has sufficient insurance coverage and would only be liable up to \$100,000 on each case settled in the plaintiff's favor. In the opinion of the City's management and legal counsel, the potential loss on all claims and lawsuits will not be significant to the City's financial statements.

Note 19 – Subsequent Events

Effective December 31, 2007, the Bad Axe Public Library will become a District Library and will no longer be a component unit of the City. The Library will issue separate financial statements in the future.

Required Supplemental Information

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a % of Covered Payroll
12/31/2001	\$ 1,724,554	\$ 2,455,114	\$ 730,560	70%	\$ 962,402	76%
12/31/2002	1,802,661	2,808,374	1,005,713	64%	1,053,851	95%
12/31/2003	2,114,421	3,699,445	1,585,024	57%	1,005,126	158%
12/31/2004	2,333,359	4,020,710	1,687,351	58%	1,092,742	154%
12/31/2005	2,559,475	4,453,770	1,894,295	57%	1,096,057	173%
12/31/2006	2,820,513	4,766,529	1,946,016	59%	1,139,846	171%

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	\$ 1,210,100	\$ 1,267,310	\$ 1,266,950	\$ (360)
Licenses and permits	12,060	31,297	35,722	4,425
State sources	356,500	383,888	381,245	(2,643)
Charges for services	5,000	2,000	2,557	557
Fines and forfeitures	5,000	8,500	8,123	(377)
Interest income	25,000	37,000	42,513	5,513
Rental income	3,600	3,600	3,725	125
Miscellaneous	146,690	167,802	172,024	4,222
Total revenues	1,763,950	1,901,397	1,912,859	11,462
Expenditures:				
General government:				
City council	16,229	12,429	12,324	105
Administration	369,450	384,499	390,796	(6,297)
Assessing	23,860	24,160	23,541	619
Elections	3,465	3,465	2,151	1,314
Buildings and grounds	11,685	11,905	8,262	3,643
City hall	73,895	73,032	65,570	7,462
Total general government	498,584	509,490	502,644	6,846
Public safety:				
Ambulance	8,655	8,655	8,655	-
Police:				
Administration/dispatch	191,500	211,000	208,007	2,993
K-9	6,000	6,000	6,389	(389)
Patrol service	400,700	415,700	429,003	(13,303)
Crossing guard/parking	3,990	3,990	3,664	326
Justice training	1,000	1,000	3,777	(2,777)
Code enforcement	59,450	59,450	58,001	1,449
Fire	95,000	95,000	95,948	(948)
Total public safety	766,295	800,795	813,444	(12,649)
Public works:				
Supervision	39,016	39,046	34,811	4,235
Parking lots and alleys	56,930	30,425	22,551	7,874
Community service	20,590	15,588	12,065	3,523
Sidewalks	54,492	44,850	30,992	13,858
Building and yard	60,802	47,809	50,739	(2,930)
Leaves/yard/waste	29,522	37,273	33,289	3,984
Street lights	70,250	69,000	63,212	5,788
Total public works	331,602	283,991	247,659	36,332

General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2007
(Continued)

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Economic development: Planning	\$ 29,000	\$ 29,000	\$ 25,666	\$ 3,334
Recreation and cultural: Parks and recreation	112,628	120,461	82,315	38,146
Debt service:				
Principal	16,758	16,516	16,516	-
Interest and charges	9,083	9,009	9,009	-
Total debt service	25,841	25,525	25,525	-
Total expenditures	1,763,950	1,769,262	1,697,253	72,009
Excess of revenue over expenditures	-	132,135	215,606	83,471
Fund balance, beginning of year	1,002,468	1,002,468	1,002,468	-
Fund balance, end of year	<u>\$ 1,002,468</u>	<u>\$ 1,134,603</u>	<u>\$ 1,218,074</u>	<u>\$ 83,471</u>

Major Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2007

	<u>MAJOR STREET</u>			
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
State sources	\$ 193,000	\$ 196,840	\$ 192,040	\$ (4,800)
Interest income	1,700	4,000	4,283	283
Miscellaneous	-	221	698	477
Total revenues	194,700	201,061	197,021	(4,040)
Expenditures:				
Public works:				
Construction	2,441	-	-	-
Surface maintenance	14,148	7,180	6,413	767
Sweeping	10,753	10,943	9,339	1,604
Drainage	27,686	15,401	9,079	6,322
Trees and shrubs	15,758	13,027	9,544	3,483
Grading and dust control	1,794	723	458	265
Grass and weed control	2,731	2,731	773	1,958
Traffic signs/signals	3,093	3,093	1,184	1,909
Pavement marking	4,405	4,405	2,471	1,934
Snow and ice	39,638	29,551	29,916	(365)
Trunkline maintenance	2,743	2,643	2,528	115
Trunkline sweeping	10,918	7,218	3,496	3,722
Trunkline drainage	8,528	8,028	3,060	4,968
Trunkline trees and shrubs	5,495	5,495	326	5,169
Trunkline grass and weeds	1,205	1,205	537	668
Trunkline traffic signs/signals	9,300	9,300	8,167	1,133
Trunkline pavement marking	2,410	2,410	676	1,734
Trunkline snow and ice	20,277	15,198	15,457	(259)
Trunkline hauling snow	16,850	9,821	9,707	114
Administration fees	16,050	16,050	16,050	-
Total expenditures	216,223	164,422	129,181	35,241
Excess of revenues over (under) expenditures	(21,523)	36,639	67,840	31,201
Other financing uses:				
Transfers out	(35,330)	(35,330)	(37,985)	(2,655)
Excess of revenues over (under) expenditures and other financing uses	(56,853)	1,309	29,855	28,546
Fund balance, beginning of year	180,467	180,467	180,467	-
Fund balance, end of year	<u>\$ 123,614</u>	<u>\$ 181,776</u>	<u>\$ 210,322</u>	<u>\$ 28,546</u>

Major Special Revenue Funds
 Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budgetary Comparison
 For the Year Ended June 30, 2007

BRICK STREET ASSESSMENT

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Special assessments	\$ 34,386	\$ 32,254	\$ 32,801	\$ 547
Interest income	75	525	1,246	721
Total revenues	34,461	32,779	34,047	1,268
Expenditures:				
Debt service:				
Principal	24,600	24,600	24,600	-
Interest and charges	6,617	6,617	6,617	-
Total expenditures	31,217	31,217	31,217	-
Excess of revenues over expenditures	3,244	1,562	2,830	1,268
Other financing sources:				
Transfers in	-	5,500	5,500	-
Excess of revenues and other financing sources over expenditures	3,244	7,062	8,330	1,268
Fund balance, beginning of year	(7,047)	(7,047)	(7,047)	-
Fund balance, end of year	<u>\$ (3,803)</u>	<u>\$ 15</u>	<u>\$ 1,283</u>	<u>\$ 1,268</u>

Other Supplemental Information

City of Bad Axe, Michigan

SPECIAL REVENUE FUNDS				
	Local Street	County Road Millage	Parks and Recreation	Drug Law Enforcement
Assets				
Cash and cash equivalents	\$ 122,198	\$ 114,673	\$ 50	\$ 2,988
Cash not qualifying as cash equivalents	-	-	12,890	-
Receivables:				
Taxes	96	-	162	-
Other governmental units	16,346	-	-	-
Due from other funds	-	-	81,060	-
Total assets	\$ 138,640	\$ 114,673	\$ 94,162	\$ 2,988
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ 6,568	\$ -	\$ 6,173	\$ -
Accrued payroll and liabilities	307	-	6,030	-
Due to other funds	29,347	-	1,250	-
Deferred revenue	96	-	162	-
Total liabilities	36,318	-	13,615	-
Fund Balance:				
Reserved:				
Capital projects	-	-	-	-
Debt service	-	-	-	-
Other purposes	102,322	114,673	-	-
Unreserved	-	-	80,547	2,988
Total fund balance	102,322	114,673	80,547	2,988
Total liabilities and fund balance	\$ 138,640	\$ 114,673	\$ 94,162	\$ 2,988

Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2007

DEBT SERVICE FUND			
<u>Rental Rehab Grant</u>	<u>Park Improvement</u>	<u>Drain Debt</u>	<u>Total</u>
\$ -	\$ 16,689	\$ 101,632	\$ 358,230
-	-	-	12,890
-	-	130	388
-	-	-	16,346
-	-	-	81,060
<u>\$ -</u>	<u>\$ 16,689</u>	<u>\$ 101,762</u>	<u>\$ 468,914</u>
\$ -	\$ -	\$ -	\$ 12,741
-	-	-	6,337
-	-	-	30,597
-	-	130	388
-	-	130	50,063
-	16,689	-	16,689
-	-	101,632	101,632
-	-	-	216,995
-	-	-	83,535
<u>-</u>	<u>16,689</u>	<u>101,632</u>	<u>418,851</u>
<u>\$ -</u>	<u>\$ 16,689</u>	<u>\$ 101,762</u>	<u>\$ 468,914</u>

City of Bad Axe, Michigan

	SPECIAL REVENUE FUNDS			
	Local Street	County Road Millage	Parks and Recreation	Drug Law Enforcement
Revenues:				
Property taxes	\$ 45,901	\$ 83,135	\$ 83,457	\$ -
Federal sources	-	-	-	-
State sources	73,608	-	3,598	-
Charges for services	-	-	58,887	-
Fines and forfeitures	-	-	-	3,786
Interest income	1,084	5,031	209	12
Rental income	-	-	7,194	-
Miscellaneous	789	-	41,121	-
Total revenues	121,382	88,166	194,466	3,798
Expenditures:				
Current:				
Public safety	-	-	-	3,261
Public works	221,119	-	-	-
Economic development	-	-	-	-
Recreation and cultural	-	-	171,758	-
Debt service:				
Principal	-	-	-	-
Interest and charges	-	-	-	-
Total expenditures	221,119	-	171,758	3,261
Excess of revenues over (under) expenditures	(99,737)	88,166	22,708	537
Other financing sources (uses):				
Transfers in	147,985	-	-	-
Transfers out	(5,500)	(110,000)	-	-
Total other financing sources (uses)	142,485	(110,000)	-	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	42,748	(21,834)	22,708	537
Fund balances, beginning of year	59,574	136,507	57,839	2,451
Fund balances, end of year	\$ 102,322	\$ 114,673	\$ 80,547	\$ 2,988

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Year Ended June 30, 2007

		DEBT SERVICE FUND	
<u>Rental Rehab Grant</u>	<u>Park Improvement</u>	<u>Drain Debt</u>	<u>Total</u>
\$ -	\$ -	\$ 203,899	\$ 416,392
89,089	-	-	89,089
-	-	8,814	86,020
-	-	-	58,887
-	-	-	3,786
-	218	938	7,492
-	8,695	-	15,889
-	-	-	41,910
<u>89,089</u>	<u>8,913</u>	<u>213,651</u>	<u>719,465</u>
-	-	-	3,261
-	-	-	221,119
89,089	-	-	89,089
-	-	-	171,758
-	-	83,392	83,392
-	-	33,279	33,279
<u>89,089</u>	<u>-</u>	<u>116,671</u>	<u>601,898</u>
-	8,913	96,980	117,567
-	-	-	147,985
-	-	-	(115,500)
-	-	-	32,485
-	8,913	96,980	150,052
-	7,776	4,652	268,799
<u>\$ -</u>	<u>\$ 16,689</u>	<u>\$ 101,632</u>	<u>\$ 418,851</u>

Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2007

	LOCAL STREET			
	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	\$ 45,100	\$ 45,840	\$ 45,901	\$ 61
State sources	70,979	70,979	73,608	2,629
Interest income	350	700	1,084	384
Miscellaneous	-	320	789	469
Total revenues	116,429	117,839	121,382	3,543
Expenditures:				
Public works:				
Construction	1,372	-	-	-
Surface maintenance	114,338	126,519	126,152	367
Sweeping	11,353	18,548	17,362	1,186
Drainage	40,604	13,270	15,692	(2,422)
Trees and shrubs	24,478	23,077	16,399	6,678
Grading and dust control	1,322	1,322	426	896
Grass and weed control	5,918	7,958	6,263	1,695
Traffic signs/signals	3,255	1,925	1,721	204
Pavement marking	4,268	4,268	1,920	2,348
Snow and ice	31,652	19,216	19,184	32
Administration fees	16,000	16,000	16,000	-
Total expenditures	254,560	232,103	221,119	10,984
Excess of revenues under expenditures	(138,131)	(114,264)	(99,737)	14,527
Other financing sources (uses):				
Transfers in	145,330	145,330	147,985	2,655
Transfers out	-	(5,500)	(5,500)	-
Total other financing sources (uses)	145,330	139,830	142,485	2,655
Excess of revenues and other financing sources over expenditures	7,199	25,566	42,748	17,182
Fund balance, beginning of year	59,574	59,574	59,574	-
Fund balance, end of year	\$ 66,773	\$ 85,140	\$ 102,322	\$ 17,182

Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2007

	<u>COUNTY ROAD MILLAGE</u>			
	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	\$ 82,000	\$ 84,500	\$ 83,135	\$ (1,365)
Interest income	4,500	5,700	5,031	(669)
Total revenues	86,500	90,200	88,166	(2,034)
Expenditures:				
Public works:				
Road construction	-	-	-	-
Excess of revenues over expenditures	86,500	90,200	88,166	(2,034)
Other Financing Uses:				
Transfers out	(110,000)	(110,000)	(110,000)	-
Excess of revenues under expenditures and other financing uses	(23,500)	(19,800)	(21,834)	(2,034)
Fund balance, beginning of year	136,507	136,507	136,507	-
Fund balance, end of year	<u>\$ 113,007</u>	<u>\$ 116,707</u>	<u>\$ 114,673</u>	<u>\$ (2,034)</u>

Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2007

PARKS AND RECREATION

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	\$ 82,000	\$ 83,378	\$ 83,457	\$ 79
State sources	3,598	3,598	3,598	-
Charges for services	42,000	57,728	58,887	1,159
Interest income	350	350	209	(141)
Rental income	7,200	6,300	7,194	894
Miscellaneous	4,000	20,150	41,121	20,971
	<u>139,148</u>	<u>171,504</u>	<u>194,466</u>	<u>22,962</u>
Total revenues	139,148	171,504	194,466	22,962
Expenditures:				
Recreation and cultural:				
Administration	79,390	74,190	75,298	(1,108)
Day camp	29,150	22,573	20,611	1,962
Senior programs	4,150	-	-	-
Programs/special events	36,020	58,680	75,849	(17,169)
	<u>148,710</u>	<u>155,443</u>	<u>171,758</u>	<u>(16,315)</u>
Total expenditures	148,710	155,443	171,758	(16,315)
Excess of revenues over (under) expenditures	(9,562)	16,061	22,708	6,647
Fund balance, beginning of year	57,839	57,839	57,839	-
Fund balance, end of year	<u>\$ 48,277</u>	<u>\$ 73,900</u>	<u>\$ 80,547</u>	<u>\$ 6,647</u>

Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2007

DRUG LAW ENFORCEMENT

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Fines and forfeitures	\$ 1,000	\$ 3,575	\$ 3,786	\$ 211
Interest income	10	15	12	(3)
Total revenues	1,010	3,590	3,798	208
Expenditures:				
Public safety:				
Operating supplies	1,000	3,103	3,261	(158)
Excess of revenues over expenditures	10	487	537	50
Fund balance, beginning of year	2,451	2,451	2,451	-
Fund balance, end of year	<u>\$ 2,461</u>	<u>\$ 2,938</u>	<u>\$ 2,988</u>	<u>\$ 50</u>

RENTAL REHAB GRANT

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Federal sources	\$ -	\$ -	\$ 89,089	\$ 89,089
Expenditures:				
Economic development:				
Contractual services	-	-	89,089	(89,089)
Excess of revenues over expenditures	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2007

PARK IMPROVEMENT

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Interest income	50	155	218	63
Rental income	8,400	8,652	8,695	43
Total revenues	8,450	8,807	8,913	106
Expenditures:				
Recreation and cultural:				
Other	-	-	-	-
Excess of revenues over expenditures	8,450	8,807	8,913	106
Fund balance, beginning of year	7,776	7,776	7,776	-
Fund balance, end of year	<u>\$ 16,226</u>	<u>\$ 16,583</u>	<u>\$ 16,689</u>	<u>\$ 106</u>

Nonmajor Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2007

DRAIN DEBT

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	\$ 197,500	\$ 203,593	\$ 203,899	\$ 306
State sources	5,396	8,814	8,814	-
Interest income	150	1,000	938	(62)
Total revenues	203,046	213,407	213,651	244
Expenditures:				
Drains	9,216	9,216	9,216	-
Principal	76,566	77,277	76,565	712
Interest expense	29,908	29,908	30,619	(711)
Miscellaneous drain payments	350	350	271	79
Total expenditures	116,040	116,751	116,671	80
Excess of revenues over expenditures	87,006	96,656	96,980	324
Fund balance, beginning of year	4,652	4,652	4,652	-
Fund balance, end of year	<u>\$ 91,658</u>	<u>\$ 101,308</u>	<u>\$ 101,632</u>	<u>\$ 324</u>

Discretely Presented Component Units
Combining Balance Sheet
June 30, 2007

	Economic Development Corporation	Downtown Development Authority	Library	Total
Assets				
Cash and cash equivalents	\$ -	\$ 53,819	\$ 71,476	\$ 125,295
Cash not qualifying as cash equivalents	4,128	93,072	27,629	124,829
Receivables:				
Taxes	-	-	166	166
Interest and accounts	-	-	4,421	4,421
Prepays	-	-	1,727	1,727
 Total assets	 <u>\$ 4,128</u>	 <u>\$ 146,891</u>	 <u>\$ 105,419</u>	 <u>\$ 256,438</u>
 Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ -	\$ 12,012	\$ -	\$ 12,012
Accrued payroll and liabilities	-	-	2,214	2,214
Due to primary government	-	1,680	11,029	12,709
Deferred revenue	-	-	166	166
 Total liabilities	 -	 13,692	 13,409	 27,101
Fund Balance:				
Reserved:				
Other purposes	-	-	27,629	27,629
Unreserved	4,128	133,199	64,381	201,708
 Total fund balance	 <u>4,128</u>	 <u>133,199</u>	 <u>92,010</u>	 <u>229,337</u>
 Total liabilities and fund balance	 <u>\$ 4,128</u>	 <u>\$ 146,891</u>	 <u>\$ 105,419</u>	 <u>\$ 256,438</u>

**Reconciliation of Fund Balance on the Balance Sheet for the
Discretely Presented Component Units to Net Assets
of Governmental Activities on the Statement of Net Assets
June 30, 2007**

Fund balance, discretely presented component units		\$ 229,337
Amounts reported for component units in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets	652,828	
Accumulated depreciation	<u>(401,333)</u>	251,495
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Accounts payable		<u>(84,771)</u>
Net assets, discretely presented component units		<u>\$ 396,061</u>

Discretely Presented Component Units
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2007

	<u>Economic Development Corporation</u>	<u>Downtown Development Authority</u>	<u>Library</u>	<u>Total</u>
Revenues:				
Property taxes	\$ -	\$ 57,987	\$ 83,456	\$ 141,443
State sources	-	-	7,276	7,276
Charges for services	-	-	60,875	60,875
Interest income	-	3,448	2,102	5,550
Rental income	-	-	9,907	9,907
Miscellaneous	-	25	74,967	74,992
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	-	61,460	238,583	300,043
Expenditures:				
Public works	-	11,374	-	11,374
Recreation and cultural	-	-	206,555	206,555
Debt service				
Principal	-	21,044	-	21,044
Interest and charges	-	5,710	-	5,710
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	-	38,128	206,555	244,683
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of revenues over expenditures	-	23,332	32,028	55,360
Fund balance, beginning of year	<u>4,128</u>	<u>109,867</u>	<u>59,982</u>	<u>173,977</u>
Fund balance, end of year	<u>\$ 4,128</u>	<u>\$ 133,199</u>	<u>\$ 92,010</u>	<u>\$ 229,337</u>

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of the Discretely Presented
Component Units to the Statement of Activities
June 30, 2007**

Net change in fund balances, discretely presented component units		\$ 55,360
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay	27,005	
Depreciation expense	<u>(37,861)</u>	(10,856)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>		
Decrease in long-term payables		<u>2,000</u>
Change in net assets, discretely presented component units		<u><u>\$ 46,504</u></u>

Discretely Presented Component Units
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2007

DOWNTOWN DEVELOPMENT AUTHORITY

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Property taxes	\$ 40,400	\$ 48,500	\$ 57,987	\$ 9,487
Interest income	-	4,500	3,448	(1,052)
Miscellaneous	100	50	25	(25)
	<u>40,500</u>	<u>53,050</u>	<u>61,460</u>	<u>8,410</u>
Expenditures:				
Public works:				
Contractual services	7,000	25,700	5,704	19,996
Printing and publishing	-	-	150	(150)
Rent	350	350	336	14
Miscellaneous	34,000	245	5,184	(4,939)
Debt service	26,755	26,755	26,754	1
	<u>68,105</u>	<u>53,050</u>	<u>38,128</u>	<u>14,922</u>
Excess of revenue over (under) expenditures	(27,605)	-	23,332	23,332
Fund balance, beginning of year	109,867	109,867	109,867	-
Fund balance, end of year	<u>\$ 82,262</u>	<u>\$ 109,867</u>	<u>\$ 133,199</u>	<u>\$ 23,332</u>

Discretely Presented Component Units
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2007

LIBRARY

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Property taxes	\$ 82,000	\$ 82,000	\$ 83,456	\$ 1,456
State sources	10,198	10,198	7,276	(2,922)
Charges for services	67,940	67,940	60,875	(7,065)
Interest income	1,025	1,025	2,102	1,077
Rental income	10,550	10,550	9,907	(643)
Miscellaneous	9,250	9,250	74,967	65,717
	<u>180,963</u>	<u>180,963</u>	<u>238,583</u>	<u>57,620</u>
Expenditures:				
Recreation and cultural:				
Salaries and fringe benefits	129,038	129,038	128,255	783
Contractual services	4,000	4,000	10,975	(6,975)
Books, periodicals, and media	25,825	25,825	27,578	(1,753)
Supplies	6,450	6,450	5,464	986
Utilities	15,000	15,000	13,981	1,019
Repairs and maintenance	8,000	8,000	2,039	5,961
Capital outlay	4,000	4,000	13,097	(9,097)
Miscellaneous	6,100	6,100	5,166	934
	<u>198,413</u>	<u>198,413</u>	<u>206,555</u>	<u>(8,142)</u>
Excess of revenues over (under) expenditures	(17,450)	(17,450)	32,028	49,478
Fund balance, beginning of year	59,982	59,982	59,982	-
Fund balance, end of year	<u>\$ 42,532</u>	<u>\$ 42,532</u>	<u>\$ 92,010</u>	<u>\$ 49,478</u>

Schedule of Drain Assessments Payable - Bad Axe Drain - Phase II
Principal and Interest Obligation as of June 30, 2007

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
03/01/2008	\$ 52,500	6.720%	\$ 24,696	\$ 77,196
03/01/2009	52,500	6.720%	21,168	73,668
03/01/2010	52,500	6.720%	17,640	70,140
03/01/2011	52,500	6.720%	14,112	66,612
03/01/2012	52,500	6.720%	10,584	63,084
03/01/2013	52,500	6.720%	7,056	59,556
03/01/2014	52,500	6.720%	3,528	56,028
	<u>\$ 367,500</u>		<u>\$ 98,784</u>	<u>\$ 466,284</u>

Schedule of Drain Assessments Payable - Crumback Drain
Principal and Interest Obligation as of June 30, 2007

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
03/01/2008	\$ 6,827	4.750%	\$ 2,048	\$ 8,875
03/01/2009	6,826	4.750%	1,707	8,533
03/01/2010	6,827	4.800%	1,365	8,192
03/01/2011	6,826	4.900%	1,024	7,850
03/01/2012	6,827	5.000%	683	7,510
03/01/2013	6,826	5.000%	341	7,167
	<u>\$ 40,959</u>		<u>\$ 7,168</u>	<u>\$ 48,127</u>

**Schedule of Land Contract
Principal and Interest Obligation as of June 30, 2007**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
01/15/2008	\$ 6,892	7.000%	\$ 6,324	\$ 13,216
01/15/2009	<u>83,444</u>	7.000%	<u>5,841</u>	<u>89,285</u>
	<u>\$ 90,336</u>		<u>\$ 12,165</u>	<u>\$ 102,501</u>

Schedule of Note Payable - Land
Principal and Interest Obligation as of June 30, 2007

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
07/01/2007	\$ 10,000	3.750%	\$ 1,870	\$ 11,870
07/01/2008	10,000	3.750%	1,495	11,495
07/01/2009	10,000	3.750%	1,120	11,120
07/01/2010	10,000	3.750%	745	10,745
07/01/2011	9,862	3.750%	370	10,232
	<u>\$ 49,862</u>		<u>\$ 5,600</u>	<u>\$ 55,462</u>

**Schedule of DDA Streetscape Installment Contract
Principal and Interest Obligation as of June 30, 2007**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
10/01/2007	\$ 14,375	4.000%	\$ 3,132	\$ 17,507
10/01/2008	14,951	4.000%	2,556	17,507
10/01/2009	15,549	4.000%	1,958	17,507
10/01/2010	16,170	4.000%	1,337	17,507
10/01/2011	17,252	4.000%	691	17,943
	<u>\$ 78,297</u>		<u>\$ 9,674</u>	<u>\$ 87,971</u>

**Schedule of DDA Streetscape Installment Contract
Principal and Interest Obligation as of June 30, 2007**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
10/01/2007	\$ 7,593	4.000%	\$ 1,654	\$ 9,247
10/01/2008	7,896	4.000%	1,351	9,247
10/01/2009	8,212	4.000%	1,035	9,247
10/01/2010	8,541	4.000%	706	9,247
10/01/2011	<u>9,112</u>	4.000%	<u>364</u>	<u>9,476</u>
	<u>\$ 41,354</u>		<u>\$ 5,110</u>	<u>\$ 46,464</u>

**Schedule of Brick Street Assessment Installment Contract
Principal and Interest Obligation as of June 30, 2007**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
06/01/2008	\$ 24,600	2.850%	\$ 6,002	\$ 30,602
06/01/2009	24,600	3.150%	5,301	29,901
06/01/2010	24,600	3.350%	4,527	29,127
06/01/2011	24,600	3.550%	3,702	28,302
06/01/2012	24,600	3.700%	2,829	27,429
06/01/2013	24,600	3.850%	1,919	26,519
06/01/2014	24,600	3.950%	972	25,572
	<u>\$ 172,200</u>		<u>\$ 25,252</u>	<u>\$ 197,452</u>

Schedule of Water Supply and Sewage Disposal Bonds - Series B

Issue Date December 1, 1996

Principal and Interest Obligation as of June 30, 2007

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
12/01/2007	<u>\$ 200,000</u>	4.750%	<u>\$ 4,750</u>	<u>\$ 204,750</u>

Schedule of Water Supply and Sewage Disposal Bonds - Series A

Issue Date December 1, 1996

Principal and Interest Obligation as of June 30, 2007

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
12/01/2007	\$ 50,000	7.125%	\$ 39,481	\$ 89,481
06/01/2008			37,700	37,700
12/01/2008	175,000	4.850%	37,700	212,700
06/01/2009			33,456	33,456
12/01/2009	175,000	4.950%	33,456	208,456
06/01/2010			29,125	29,125
12/01/2010	200,000	5.000%	29,125	229,125
06/01/2011			24,125	24,125
12/01/2011	200,000	5.000%	24,125	224,125
06/01/2012			19,125	19,125
12/01/2012	200,000	5.000%	19,125	219,125
06/01/2013			14,125	14,125
12/01/2013	200,000	5.000%	14,125	214,125
06/01/2014			9,125	9,125
12/01/2014	200,000	5.000%	9,125	209,125
06/01/2015			4,125	4,125
12/01/2015	200,000	4.125%	4,125	204,125
	<u>\$ 1,600,000</u>		<u>\$ 381,293</u>	<u>\$ 1,981,293</u>

Schedule of Sewage Disposal Bonds
2006 Wastewater Treatment Plant Improvements
Issue Date June 22, 2006
Principal and Interest Obligation as of June 30, 2007

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
10/01/2007		1.625%	\$ 43,066	\$ 43,066
04/01/2008	\$ 285,000	1.625%	46,343	331,343
10/01/2008		1.625%	44,027	44,027
04/01/2009	290,000	1.625%	44,028	334,028
10/01/2009		1.625%	41,671	41,671
04/01/2010	295,000	1.625%	41,671	336,671
10/01/2010		1.625%	39,274	39,274
04/01/2011	295,000	1.625%	39,274	334,274
10/01/2011		1.625%	36,878	36,878
04/01/2012	300,000	1.625%	36,877	336,877
10/01/2012		1.625%	34,440	34,440
04/01/2013	305,000	1.625%	34,440	339,440
10/01/2013		1.625%	31,962	31,962
04/01/2014	310,000	1.625%	31,962	341,962
10/01/2014		1.625%	29,443	29,443
04/01/2015	315,000	1.625%	29,443	344,443
10/01/2015		1.625%	26,884	26,884
04/01/2016	320,000	1.625%	26,884	346,884
10/01/2016		1.625%	24,284	24,284
04/01/2017	325,000	1.625%	24,284	349,284
10/01/2017		1.625%	21,643	21,643
04/01/2018	335,000	1.625%	21,643	356,643
10/01/2018		1.625%	18,921	18,921
04/01/2019	340,000	1.625%	18,921	358,921
10/01/2019		1.625%	16,159	16,159
04/01/2020	345,000	1.625%	16,159	361,159
10/01/2020		1.625%	13,356	13,356
04/01/2021	350,000	1.625%	13,356	363,356
10/01/2021		1.625%	10,512	10,512
04/01/2022	355,000	1.625%	10,512	365,512
10/01/2022		1.625%	7,627	7,627
04/01/2023	360,000	1.625%	7,628	367,628
10/01/2023		1.625%	4,702	4,702
04/01/2024	365,000	1.625%	4,703	369,703
10/01/2024		1.625%	1,737	1,737
04/01/2025	213,769	1.625%	1,737	215,506
	<u>\$ 5,703,769</u>		<u>\$ 896,451</u>	<u>\$ 6,600,220</u>

City of Bad Axe, Michigan

Single Audit

for the Fiscal Year ended

June 30, 2007

HYZER, HILL, KUZAK & CO., P.C.

Certified Public Accountants

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Bad Axe
Bad Axe, Michigan

We have audited the financial statements of the governmental activities, the business type activities, each major fund, the aggregate remaining fund information of the City of Bad Axe, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Bad Axe's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Bad Axe's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Bad Axe's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. The finding is noted in the schedule as 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to the City's management in a separate letter dated October 25, 2007.

This report is intended solely for the information and use of the governing body, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hyzer, Hill, Krueger & Co P.C.

October 25, 2007

HYZER, HILL, KUZAK & CO., P.C.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

City Council
Bad Axe, Michigan

Compliance

We have audited the compliance of City of Bad Axe with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. City of Bad Axe's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Bad Axe's management. Our responsibility is to express an opinion on City of Bad Axe's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Bad Axe's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Bad Axe's compliance with those requirements.

In our opinion, the City of Bad Axe complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City of Bad Axe is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Bad Axe's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hyzer, Hille, Hyzer & Co P.C.

October 25, 2007

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Environmental Protection Agency – Capitalization Grants for Clean Water – State Revolving Funds - Passed through Huron County	66.458	\$ 1,497,272
U. S. Department of Housing and Urban Development – Community Development Block Grant - Passed through Michigan State Housing Development Association, City of Bad Axe Rental Rehab Program	14.228	<u>89,089</u>
Total Expenditures of Federal Awards		<u>\$ 1,586,361</u>

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant Deficiency(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant Deficiency(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported
In accordance with section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	Environmental Protection Agency – State Revolving Fund

Dollar threshold used to distinguish between Type A and
Type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT

2007-1: Internal Control – Controls over Financial Reporting. All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

There were no findings or questioned costs related to the major federal awards program for the year ended June 30, 2007.

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No prior audit findings.

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Bad Axe and is presented on the modified accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. Subrecipients

The City of Bad Axe provided awards to subrecipients as presented below. These amounts are included in the federal expenditures in the schedule.

<u>Program Title</u>	<u>Amount Provided Federal CFDA #</u>	<u>To Subrecipient</u>
Community Development Block Grant – Rental Rehab Program	14.228	\$ 89,089

3. Reconciliation to Financial Statements

Federal revenue reported in financials:

Governmental funds	\$ 89,089
Proceeds from borrowings reported in Sewer Fund	5,703,769
Less: Adjustment of loan proceeds to appropriate Federal percentages	<u>(4,206,497)</u>
Federal expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 1,586,361</u>

HYZER, HILL, KUZAK & CO., P.C.

Certified Public Accountants

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Bruce Hill
Donald Kuzak
Michael Doerr

October 25, 2007

City of Bad Axe
300 East Huron Avenue
Bad Axe, MI 48413

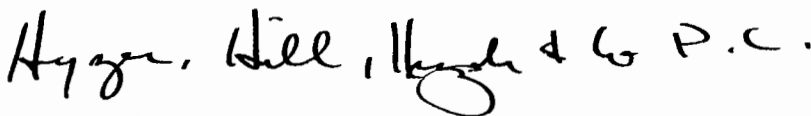
Dear City Manager and Finance Committee:

In planning and performing our audit of the financial statements of the City of Bad Axe for the year ended June 30, 2007, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This report does not affect our report dated October 25, 2007 on the financial statements of the City of Bad Axe.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in cursive script that reads "Hyzer, Hill, Kuzak & Co P.C.".

Hyzer, Hill, Kuzak & Co., P. C.

Bank Accounts

We noted that the payroll disbursement account and general checking account were at times during the year holding a large amount of funds. Currently these accounts earn no interest. The City should lower the threshold amount in the payroll and checking accounts to cover one payroll run and current disbursements only. The remaining funds should be held in an interest bearing savings account to earn the City interest income on this money.

Accounts Payable Module

We discovered that an invoice to a vendor was paid twice and the error not caught by the administrative staff. The City should work with BS&A, the computer software company, to incorporate controls into the accounts payable module, so that this is not allowed to happen without knowledge of the staff.

Prior Year Comments

In the prior year, we issued two comments that were not addressed during the current year. We recommended that the City develop a long range capital improvement plan to better assess their capital asset needs and related financing of those assets. We also recommended that the City adopt a formal disaster recovery plan. The City should contact BS&A for guidance in a disaster recovery situation and form an agreement with another local government for use of their systems in processing payables, payroll, etc.

Budget for Special Revenue Fund

According to Public Act 493 of the Uniform Budgeting and Accounting Act, governments are required to have a budget for each special revenue fund. The City did not prepare a budget for the Rental Rehab Grant.